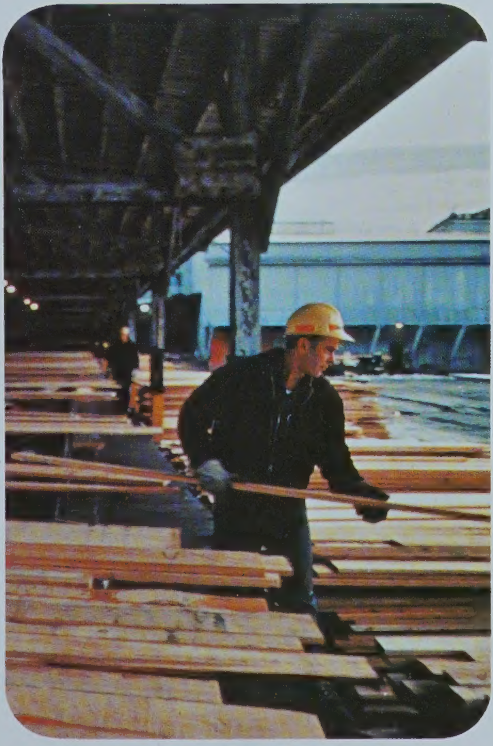
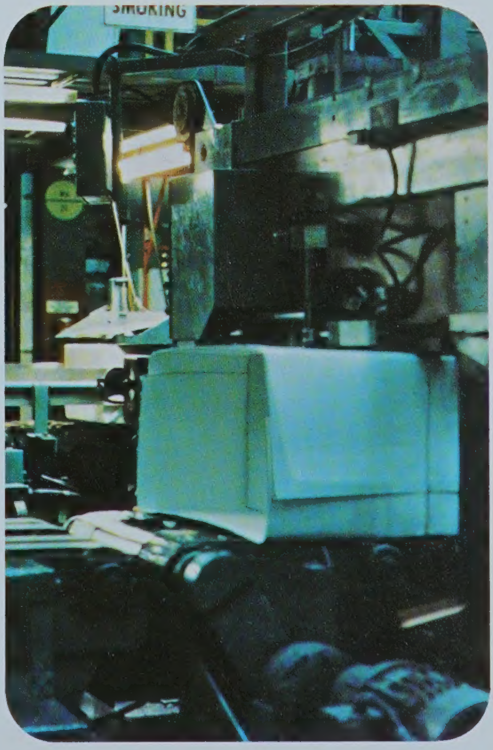
# Canadian Cellulose Company, Limited

## 1975 Annual Report





Canadian Cellulose Company, Limited

## Annual General Meeting

April 22, 1976, 10:00 a.m.
Thompson Room, Bayshore Inn, Vancouver, B.C.

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## The Company

Canadian Cellulose is a British Columbia-based forest products company employing nearly 2,900 persons in its pulp and lumber manufacturing and logging operations. These facilities are located in the north-western and southern interior regions of the province. Pulp marketing offices are located in Montreal and Brussels.

The company currently operates two bleached softwood kraft pulp mills, a sulphite pulp mill (which is being modified to the kraft process), three lumber mills and two logging divisions. Productive forest lands under management in two tree farm licences encompass 2.8 million acres.

Export sales account for 89 percent of sales revenue. Bleached softwood kraft pulp is the company's major product and is marketed, largely on a long term basis, in more than 20 countries. Lumber is sold mainly in North America.

### PLANTS AND OFFICES

**Corporate Office**
1200-1111 West Hastings Street
Vancouver, B.C. V6E 2K2

**Pulp Marketing Offices**
Montreal, P.Q.
Brussels, Belgium

**Kraft Pulp Mills**
Castlegar, B.C.
Prince Rupert, B.C.

**Sulphite Pulp Mill**
Prince Rupert, B.C.

**Lumber Mills**
Castlegar, B.C.
Kitwanga, B.C.
Terrace, B.C.

**Woods Operations**
Nakusp, B.C.
Terrace, B.C.

## BOARD OF DIRECTORS

**E. Bertram Berkley**†
Chairman and President, Tension Envelope Corporation, Kansas City

**Alan S. Gordon***
Consultant, Merrill Lynch, Royal Securities Limited, Montreal

**Ronald M. Gross***
President and Chief Executive Officer, Canadian Cellulose Company, Limited, Vancouver

**W. C. Raymond Jones**
Chairman, British Columbia Cellulose Company, Vancouver

**Max Litvine**
Managing Director, Compagnie Bruxelles Lambert, Brussels

**Charles C. Locke, Q.C.***†
Partner, Ladner Downs, Vancouver

**John H. Spicer**
Corporate Vice President
Canadian National Railways, Montreal

**Ira D. Wallach***
Chairman and Chief Executive Officer, Gottesman and Company Inc. and Central National Corporation, New York

**Donald N. Watson***†
President and Chief Executive Officer, Pacific Western Airlines Ltd., Vancouver

** Member of Executive Committee — Chairman, Donald N. Watson*
*† Member of Audit Committee — Chairman, Charles C. Locke, Q.C.*

## OFFICERS

**Ronald M. Gross**
President and Chief Executive Officer

**Donald P. Best**
Senior Vice President, Operations

**Frank X. Guimond**
Senior Vice President, Engineering and Development

**Orjan Burchardt**
Vice President, Pulp Manufacturing

**Roger J. Duncan**
Vice President, General Counsel

**Herschell F. Huff**
Vice President, International Pulp Marketing

**Gordon R. McLachlin**
Vice President, Logging and Lumber Operations

**Roy W. Murphy**
Vice President, Personnel and Administration

**Clive B. Symons**
Vice President, Treasurer

**William H. Vaughan**
Vice President, North American Pulp Marketing

**Alan K. Wilkinson**
Secretary

## OPERATIONS

**John N. Babcock**
Manager, Kitwanga Lumber Operations

**Robert E. Davis**
Manager, Pohle Lumber Operations

**Edward C.J. Higgs**
Manager, Interior Lumber Operations

**G. Edward Lloyd**
Manager, Interior Woods Operations

**Leonard S. Steel**
General Manager, Northern Pulp Operations

**R. W. Sweeney**
General Manager, Interior Pulp Operations

**W. Frederick Waldie**
Manager, Northern Woods Operations

## CORPORATE MANAGEMENT

**A. V. (Bill) Backman**
Director of Planning and Forestry

**Richard A. Commerford**
Corporate Controller

**Harry R. Papushka**
Director, Supply and Distribution

**Samuel H. Smillie**
Director, Labour Relations

**Robert E. Swenarchuk**
Director, Public Relations

## CORPORATE DATA

**Share Transfer Agent and Registrar**
Montreal Trust Company,
466 Howe Street, Vancouver, B.C. V6C 2A8
and branches in Toronto and Montreal

**Share Listings**
Montreal, Toronto and Vancouver Stock Exchanges

**Auditors**
Coopers & Lybrand,
28th Floor, 1055 West Georgia Street,
Vancouver, B.C. V6E 3R2

**Principal Subsidiary and Affiliated Companies**
Babine Forest Products Limited (24% owned)
Canadian Cellulose International, S.A.
Celgar Properties Limited
Celtran Equipment Limited
Colcel Properties Limited
Haseldonckx, S.A. (50% owned)
Les Papeteries de Gastuche, S.A. (43% owned)
Pohle Lumber Co. Ltd.
Twinriver Timber Limited

# Highlights

| | 1975 | 1974 |
|---|---|---|
| **Earnings** | | |
| Net sales | $156,032,000 | 191,501,000 |
| Earnings before taxes and extraordinary item | 29,486,000 | 54,591,000 |
| Earnings before extraordinary item | 15,286,000 | 28,991,000 |
| Net earnings | 27,486,000 | 50,866,000 |
| **Per share** | | |
| Earnings before extraordinary item | $ 1.25 | 2.38 |
| Net earnings | 2.25 | 4.17 |
| Cash flow from operations before extraordinary item | 2.15 | 3.29 |
| Dividends | .30 | .05 |
| **Financial position at end of year** | | |
| Working capital | $ 65,573,000 | 52,613,000 |
| Total assets | 157,772,000 | 148,180,000 |
| Long term debt | 47,838,000 | 54,291,000 |
| Shareholders' equity | 82,689,000 | 58,860,000 |
| **Additional information** | | |
| Expenditures on fixed assets | $ 14,923,000 | 14,576,000 |
| Wages, salaries and employee benefits | 44,800,000 | 48,300,000 |
| Number of employees at end of year | 2,939 | 3,197 |
| Number of registered shareholders at end of year | 5,935 | 6,337 |

**Note:** *These Highlights and the letter to Shareholders and Employees constitute the Directors' Report to the members for the year 1975.*

Ronald M. Gross,
*President and Chief Executive Officer.*

# To Our Shareholders and Employees

1975 was a year of accomplishment for Canadian Cellulose despite difficult problems in world economies and an industry-wide labour dispute that closed operations for nearly four months.

The financial performance, while not meeting the record achievement of 1974, was nonetheless satisfactory in view of the conditions that faced the company during the year.

Net sales amounted to $156 million compared to $191.5 million in 1974 and earnings amounted to $15.3 million or $1.25 per share, after making provision for income taxes, compared to $29 million or $2.38 per share in 1974.

Net earnings after an extraordinary tax credit were $27.5 million or $2.25 per share compared to $50.9 million or $4.17 per share for 1974.

The company's financial position continued to improve. Working capital at year-end amounted to $65.6 million compared to $52.6 million at the end of 1974, and the ratio of current assets to current liabilities improved to 3.4:1 from 2.5:1. Our long term debt was reduced to $47.8 million from $54.3 million and shareholders' equity rose to $82.7 million from $58.9 million.

In the first quarter of 1975, the Board of Directors increased the

quarterly dividend rate to seven and one-half cents per share from five cents per share, which was the amount of the first dividend of the company paid in December 1974.

With normal operating conditions prevailing in the first six months, the company performed well with sales and earnings both improved over the corresponding period of 1974. In July, however, negotiations with both the pulp and woodworkers' unions broke down, and subsequent industry-wide strike action by the pulpworkers' unions effectively shut down all operations for nearly four months during which period the reduced product needs of our pulp customers were satisfied from inventories. Operations were resumed in October under 'back-to-work' legislation enacted by the Provincial Government.

Pulp shipments were reduced from 541,000 tons in 1974 to 380,000 tons. Prices for kraft pulp were firm throughout the year despite the fact that the paper industry in our major market areas experienced the lowest operating rates in thirty years. Sulphite pulp demand fell sharply from 1974 levels, reflecting extremely depressed conditions in the textile industry.

Approximately 90 percent of the company's sales are in United States dollars and the more favourable exchange rate of the U.S. dollar to the Canadian dollar in 1975 compared to 1974, increased gross sales revenue by $5.4 million.

When operating, the company's lumber mills performed satisfactorily, although weak markets forced some further curtailment after production resumed in the fourth quarter. The new sawmill of Babine Forest Products Limited, of which the company is a 24 percent shareholder, started up successfully and began to supply our northern kraft mill with residual chips.

Capital expenditures during the year amounted to $14.9 million, an increase of $300,000 over 1974. Projects undertaken in 1975 involved expenditures on improved working conditions, logging roads, equipment replacements and pollution control. Additional planned capital expenditures were curtailed due to the strike.

A new two-year contract based on the mediation report of Mr. Justice Hutcheon of the Supreme Court of British Columbia was negotiated by the industry with the International Woodworkers of America on behalf of coastal logging and lumber operations prior to introduction of the Federal anti-inflation program. Pulpworkers in British Columbia subsequently ratified a similar contract that is now being amended following a recent ruling by the Anti-Inflation Board.

Due to continued inflation in 1975, the company and the industry were faced with serious cost increases in labour, transportation, wood fibre, supplies and energy, details of which are contained in the Operations Review. Such escalating costs, in addition to reducing profit margins, result in the need for a higher level of working capital to support the same level of business activity.

The highlight of the year was the adoption in principle in July by the Board of Directors of a long term major capital development program and approval of the implementation of the first major stage. The program will strengthen the company's position as an important world-wide supplier of bleached softwood kraft pulp.

The first stage, for which advanced engineering planning is now underway, is a modification of the Prince Rupert sulphite mill to the manufacture of bleached kraft pulp at an estimated cost of $85 million in 1975 dollars. The modification is planned to be completed within three years assuming that essential pollution control approvals are obtained in time to allow construction to commence in 1976. It will bring total kraft capacity at Prince Rupert to approximately 1,225 tons per day from the current 750 tons per day.

The second stage, still subject to later assessment of prevailing market and financial conditions, is the construction of a bleached kraft mill at the company's southern interior operations at Castlegar at an estimated cost of $205 million, also in 1975 dollars. Preliminary plans call for the new mill to have a capacity of 750 tons per day, bringing total kraft capacity at Castlegar to 1,340 tons per day.

Adoption of the program, the most ambitious ever undertaken by the company, follows a two-year period of intensive forestry, engineering and market studies. The studies confirmed that long-term markets for kraft pulps are far more attractive than for sulphite pulps or for other forest products and that no long term solution is practical for continued operation of the sulphite mill as it now exists.

The sulphite mill has been a major problem for the company for many years. Written off in 1971, it has seldom been profitable. An expenditure of $80 million just for pollution abatement measures would have been required to permit the present inefficient and unprofitable operation to continue beyond December 1979. Such an expenditure would not be prudent.

The modification will not only resolve the pollution problem, but also will convert the mill into a profitable operation and provide a stronger production and earnings base to enable the company to proceed later with expansion at Castlegar.

The company plans to provide the necessary funds for the project from a combination of internally-generated capital and long term debt financing.

Superior marketability of kraft pulp, sharply improved fibre utilization, substantial savings on energy and chemical costs and stabilized employment in our northern operations will be other major benefits of the modification.

The satisfactory performance of Canadian Cellulose in 1975, despite the industry-wide problems, reflects the validity of policies developed earlier by the company and emphasizes the continuing necessity for anticipation of, and planning for, changes in market cycles.

The responsibilities of two members of senior management were broadened in 1975 with the appointment of Gordon R. McLachlin to the position of Vice President, Logging and Lumber, and Orjan Burchardt to the position of Vice President, Pulp Manufacturing. Mr. McLachlin was formerly Vice President, Lumber Operations, and Mr. Burchardt was formerly Vice President, Interior Pulp Operations. In addition, Richard A. Commerford joined the company as Corporate Controller.

## Outlook

The U.S. economy appears to have gained sufficient momentum to continue growth during 1976 and other major world economies are also expected to improve during the course of the year. In view of this, the company anticipates improved market conditions for kraft pulp and lumber. Demand for sulphite pulp is expected to remain weak during the year.

The major concern facing the company and the industry as a whole is the continuing upward pressure on costs. Management will continue to give top priority to cost and inventory control and improved productivity in order to remain competitive in world markets.

The Federal Government's anti-inflation program is now beginning to have an impact. We strongly support effective steps to bring under control the country's unacceptable rate of inflation and particularly welcome the decision to withdraw the controversial export levy. Although the proposed export levy was not expected to have a severe adverse effect on the company based on the preliminary information that was available, it was in our opinion a measure that would have been counter-productive to the development and encouragement of Canadian exports generally and thus, in the long run, would have hindered achievement of the fundamental goals of the anti-inflation program.

With a year of major decision behind us, we look to the future with optimism. We are confident that our announced development program is sound and in the best long term interest of our shareholders, employees and the communities in which we operate.

On behalf of the
Board of Directors,

RMGross

Ronald M. Gross
*President and Chief Executive Officer*

Vancouver, B.C.
February 27, 1976.

# Operations Review

## Logging and Forestry

Closure of the company's converting facilities for nearly a third of the year resulted in severe curtailments of the logging operations in both the north-western and southern interior regions of British Columbia in which the company's two tree farm licences are located.

Total production amounted to 850,000 cunits of logs (a cunit is 100 cubic feet of solid wood) compared to 1,297,000 cunits in 1974. Volume at the northern logging operations, located along the Nass and Skeena river systems, was reduced to 585,000 cunits from 933,000 cunits in 1974. The interior logging operations along the Columbia River basin produced 265,000 cunits, compared to the 1974 volume of 364,000 cunits.

Basic operating costs continued to escalate sharply and are of particular concern because many of the factors influencing such costs are beyond the direct control of the company. Freight rates and costs of equipment, supplies, services and labour all rose in 1975. The most severe increase was the doubling of rail freight rates for the movement of logs in the northwest.

In addition, stringent forest management guidelines imposed by the Provincial Forest Service continued to inflate forest management costs, particularly for road building. After an increase of nearly $10,000 per mile of road in 1974, costs of building to the required standards in the interior operation rose by an additional $6,000 per mile in 1975 and reached an unprecedented average cost of $28,000 per mile. Representations continue to be made to the Forest Service for greater flexibility in interpretation and implementation of the guidelines.

Often working in difficult mountain terrain, road building crews extended the company's network of access roads by constructing 168 miles during the year. A major achievement was the completion of a $700,000 bridge over the Nass River that will permit harvesting in areas of the northwest which, until now, have been inaccessible. The bridge, 450 feet long and with a 200 foot centre span, is the largest ever built by the company.

A large maintenance shop also was completed during the year at the northern woods operations' headquarters near Terrace. A unique feature of the $1 million, 27,000 square feet structure is a hot water radiant heating system, installed in the cement floor slab, that uses waste oil from vehicles and equipment as fuel.

Methods to improve harvesting techniques and productivity have been under constant review. The use of modern grapple yarding equipment was increased in both the northern and interior logging operations.

The ability of the forest resource to renew itself is unique among the natural resources which are commercially developed. We


supplement the natural regeneration cycle of nature by replanting forests under our management. During 1975 our forestry crews planted in excess of 1.1 million seedlings.

During the latter part of the year the company made three formal submissions to the Provincial Royal Commission on Forest Resources, which concluded its hearings in December. The company recommended a number of measures for improved long-term stability in the public administration of the province's forest resources.

The company proposed that a permanent Forest Commission be established to recommend and direct forest policy and that the Forest Service continue as an operating agency responsible for forest management matters such as reforestation, engineering, research, fire protection and compilation of inventory data.

The new policy body, in the company's view, should be responsible for establishing the revenue to the Province through stumpage and royalty payments, the allocation of Crown timber, and resource planning and development. An

important function for the proposed Forest Commission would be to act as an appeal board to resolve disputes between industry and the Forest Service.

In its presentations, the company emphasized the critical need for consistency, continuity and certainty of policies and administration of the public forest resource required to assist and allow industry to compete effectively in world markets.

## Lumber Operations

Our lumber mills operated at substantially reduced levels during 1975 due to the continuing depressed construction activity in North America and the shutdown of virtually the entire British Columbia forest industry during the pulpworkers' strike.

Production at the company's three sawmills, located at Castlegar, in the southern interior of the province, and at Terrace and Kitwanga in the northwest region, was the lowest in five years, amounting to 167 million board feet, compared to 243 million board feet in 1974.

Left to right: Frank X. Guimond, *Senior Vice President, Engineering and Development;* Gordon R. McLachlin, *Vice President, Logging and Lumber Operations;* Donald P. Best, *Senior Vice President, Operations;* Orjan Burchardt, *Vice President, Pulp Manufacturing.*

Left to right: A. V. Backman, *Director of Planning and Forestry;* G. Edward Lloyd, *Manager, Interior Woods Operations;* W. Frederick Waldie, *Manager, Northern Woods Operations.*

Left to right: Edward C. J. Higgs, *Manager, Interior Lumber Operations;* Robert E. Davis, *Manager, Pohle Lumber Operations;* John N. Babcock, *Manager, Kitwanga Lumber Operations.*

Housing construction in the United States, the primary market for our lumber, continued its longest and deepest decline in 15 years for most of 1975 and, as a result, prices did not improve significantly from the low levels of 1974. By year end there were some indications that an upturn had started.

Projections for 1976 housing starts in the U.S. currently range from 1.5 million to 1.7 million units, well below the peak of 2.3 million units recorded in 1972 and below the 1.8 million units generally considered necessary for a healthy lumber market. Starts in 1975 were approximately 1.1 million.

Production efficiency at the Castlegar sawmill was further improved in 1975 with the installation of a second double-arbor edger system, costing $575,000, which was completed in the fall. This installation twins a similar unit installed in 1974 and has the advantage, over obsolete equipment replaced, of improved log processing speed, (50-80 feet per minute compared to 15-20 feet per minute), improved grades and quality, better log utilization and reduced maintenance.

The mill produced 84 million board feet of lumber in 1975 compared to 117 million board feet in 1974.

It manufactures high quality kiln-dried lumber that is marketed principally in the midwest and southern areas of the United States. A decided advantage in the difficult market of 1975 was the mill's continued ability to offer customers a wide degree of flexibility by making up box-car sized orders containing up to 50 different sizes, species and grades.

The company's northern lumber operations at Terrace and Kitwanga produced 83 million board feet compared to 126 million board feet in 1974.

A comprehensive job and safety training program developed at the Terrace operation in conjunction with the International Woodworkers of America and Canada Manpower had a dramatic impact on productivity. Although the mill's annualized operating rate was 416,000 board feet per day, production in March and May, two months of active markets, established records of 518,000 and 526,000 board feet per day respectively. The program is to be expanded to other company operations.

As a result of capital expenditures and other improvements at the company's sawmill operations in the last few years we are in a position to capitalize on the expected improvement in lumber markets in the coming year.

Left to right: R. W. Sweeney, *General Manager, Interior Pulp Operations,*
Leonard S. Steel, *General Manager, Northern Pulp Operations.*

## Pulp Operations

Production at the company's bleached kraft and sulphite pulp mills located at Prince Rupert and the bleached kraft mill at Castlegar was considerably lower in 1975 than the previous year due to labour and market difficulties.

Softwood bleached kraft production totalled 297,000 tons compared to 409,000 tons in 1974. Sulphite production of 87,000 tons, compared to 156,000 tons in the previous year, was the lowest in more than 10 years.

Costs rose significantly in several areas. Notable increases occurred in unit costs of purchased wood chips, chemicals and other related supplies, energy in the form of natural gas, electricity and heavy fuel oil, and rail and deep sea shipping rates.

The sawmill price of residual wood chips, which jumped from \$10 to \$28 per unit in 1974, was maintained throughout 1975 at the \$35 per unit level established by the Provincial Government under the Timber Products Stabilization Act.

In February 1976, the Government announced it was establishing a new formula to determine the minimum market price for residual chips. The price will be based on the actual selling price of bleached kraft pulp and will be adjusted semi-annually. Until July 1, 1976, the floor price under the new formula is \$30.30 per unit. The company is currently reviewing its chip purchasing program under these new conditions.

The company has moved aggressively to keep manageable costs under control. Progress has been made in recovery and recycling of chemicals used in the pulping process and the expanded use of process computers is expected to further improve efficiency and conserve chemicals and energy.

A plan to expand the northern mills' capacity to generate energy is being accelerated. New processing facilities that will consume combustible waste generated from the pulp operations are expected to be completed by October, 1976. In addition to reducing dependency on fuel oil and natural gas, the project will vastly improve utilization of wood bark.

Left to right:
William H. Vaughan, *Vice President, North American Pulp Marketing;*
Harry R. Papushka, *Director, Supply and Distribution;*
Herschell F. Huff, *Vice President, International Pulp Marketing.*

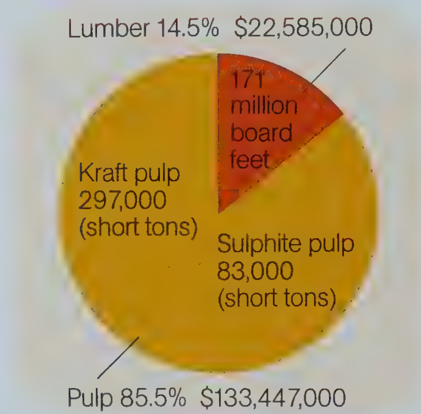
Our program to meet effluent and air emission requirements established by governmental agencies is continuing. Capital expenditures for environmental control projects amounted to $1.6 million in 1975 and 1976 costs are expected to be approximately $1.8 million.

A highlight of the environmental program at Castlegar in 1975 was the installation of an improved recovery stack scrubber, which was completed in December. Designed to exceed regulatory requirements for particulate emissions, the device is performing well and is providing supplementary chemical and energy conservation benefits. The Provincially-sponsored "Kootenay Environmental Study", is expected to be completed in 1976, and will undoubtedly influence the environmental program at Castlegar.

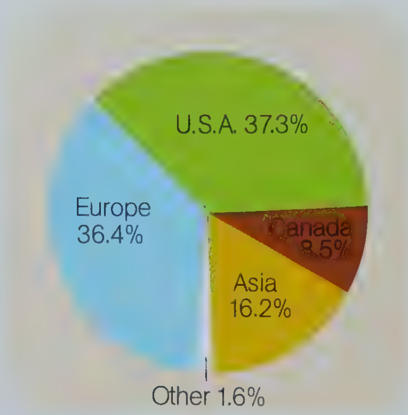
An application has been made for amendments to the company's pollution control permit for the Prince Rupert pulp operations to take into account the planned modification of the sulphite mill to the kraft pulp process. This modification will resolve most of the company's environmental problems at this location.

In its application for the amended permit required by law, the company has indicated it will meet the Level "B" requirements already established for the Prince Rupert operations.

## Sales by major products – 1975




## Pulp sales revenues by market area – 1975




## Employee Relations

During 1975, the company was involved in contract negotiations with four unions relating to woods, lumber, and pulp operations.

Shortly after the breakdown of industry-wide bargaining with the Pulp, Paper and Woodworkers of Canada, a province-wide strike commenced in mid-July which shut down the Prince Rupert and Castlegar pulp mills. This strike, coupled with depressed lumber markets, forced the curtailment of woods and sawmill operations.

A two-year contract covering coastal woods and lumber operations was agreed upon in October by the industry and the International Woodworkers of America. The settlement was based on the Hutcheon Report and provided a first year general wage increase of $1.04 per hour, and 75 cents per hour in the second year, as well as health and welfare improvements and increased vacation benefits.

Left to right: Alan K. Wilkinson, *Secretary,* Samuel H. Smillie, *Director, Labour Relations;* Roger J. Duncan, *Vice President, General Counsel;* Robert E. Swenarchuk, *Director, Public Relations;* Roy W. Murphy, *Vice President, Personnel and Administration.*

In mid-October, the Province enacted 'back-to-work' legislation resulting in the resumption of operations.

In February 1976 a new agreement reached with the pulp union was submitted to the Anti-Inflation Board for approval. The A.I.B. has rolled back the first year increase from 16.1 percent to 15 percent with the second year increase remaining as negotiated at 10.8 percent. The industry is currently meeting with the pulp unions to amend the contract to conform to the ruling.

In the Interior, the company has entered into a separate contract with the I.W.A. covering our logging and lumber operations, and a ratified agreement also based on the Hutcheon Report is now before the A.I.B. for approval.

The company continued to recognize individual performance, job responsibility and the need to protect employee purchasing power in carrying out its salaried compensation program. Following the improvement of salaried benefit plans, a comprehensive seminar program was undertaken in all divisions to provide better employee understanding of benefits. Explanatory material was revised and annual individual statements were prepared and distributed. In recognition of recent inflationary demands on fixed income the company also improved pension benefits for retired employees.

An improvement in overall employee safety performance over 1974 was achieved as indicated by a company-wide reduction in the frequency rate and severity of lost-time accidents. Special mention should be made of the improved accident prevention record of the interior pulp operations in 1975 which was among the top five mills in the province. Safety and accident prevention continues to be a high priority at all divisions.

In 1975, the company spent in excess of $650,000 to improve plant working conditions and to assist in civic programs such as community facilities in remote locations. The projects ranged from an upgrading of ventilation systems in pulp mill operations, provision of television coverage in the Nass Valley and increased recreational and accommodation services in logging camps.

An important initiative during the year was directed to management development at the northern pulp operations. The program involved introduction of intensive formal courses to complement on-the-job training and is one of the most advanced in the industry. It is designed to develop and improve supervisory skills at all levels and has received outstanding acceptance and a high degree of participation. Increased emphasis on training and development is to be continued in the company with the northern pulp program providing a basis for extension to other operating divisions.

Indications are that the rate of employee turnover was reduced from past experience particularly in the northern operations. This trend, if continued, will have a positive impact on productivity.

# Financial Section

## 1975 Summary by Quarter

| (Thousands) | First Quarter | Second Quarter | Third Quarter | Fourth Quarter | Year 1975 |
|---|---|---|---|---|---|
| Net sales | $46,424 | 52,457 | 26,390 | 30,761 | 156,032 |
| Earnings before taxes and extraordinary item | 11,985 | 14,127 | 446 | 2,928 | 29,486 |
| Provision for income taxes | 5,680 | 6,720 | 200 | 1,600 | 14,200 |
| Earnings before extraordinary item | 6,305 | 7,407 | 246 | 1,328 | 15,286 |
| Extraordinary item | 3,933 | 3,967 | 2,100 | 2,200 | 12,200 |
| Net earnings | $10,238 | 11,374 | 2,346 | 3,528 | 27,486 |
| Per share | | | | | |
| Earnings before extraordinary item | $ .52 | .60 | .02 | .11 | 1.25 |
| Net earnings | $ .84 | .93 | .19 | .29 | 2.25 |

Left to right:
Clive B. Symons,
*Vice President, Treasurer;*
Richard A. Commerford,
*Corporate Controller.*

# Consolidated Statement of Earnings

| | (Thousands) 1975 | 1974 |
|---|---|---|
| **Revenues** | | |
| Net sales | $ 156,032 | 191,501 |
| Other income | 1,215 | 1,302 |
| | 157,247 | 192,803 |
| **Cost and expenses** | | |
| Cost of goods sold | 118,811 | 129,149 |
| Selling and administration | 5,343 | 4,775 |
| Long term debt interest | 3,346 | 3,585 |
| Other interest | 261 | 703 |
| | 127,761 | 138,212 |
| **Earnings before taxes and extraordinary item** | 29,486 | 54,591 |
| Provision for income taxes | 14,200 | 25,600 |
| **Earnings before extraordinary item** | 15,286 | 28,991 |
| Income tax reduction on application of prior years' losses (note 4) | 12,200 | 21,875 |
| **Net earnings** | $ 27,486 | 50,866 |
| **Per share** | | |
| Earnings before extraordinary item | $ 1.25 | 2.38 |
| Extraordinary item | 1.00 | 1.79 |
| Net earnings | 2.25 | 4.17 |

# Consolidated Statement of Retained Earnings

| | 1975 | 1974 |
|---|---|---|
| **Deficit at beginning of year (note 10)** | $ (9,890) | (60,147) |
| Net earnings for the year | 27,486 | 50,866 |
| | 17,596 | (9,281) |
| Dividends — $.30 per share (1974 $.05 per share) | 3,657 | 609 |
| **Retained earnings (deficit) at end of year** | $ 13,939 | (9,890) |

# Consolidated Balance Sheet at December 31

## ASSETS

| | (Thousands) 1975 | 1974 |
|---|---|---|
| **Current assets** | | |
| Cash and bank deposit receipts | $ 7,161 | 18,996 |
| Short term investments | 5,783 | — |
| Accounts receivable | 23,129 | 21,358 |
| Inventories (note 2) | 56,576 | 47,201 |
| Prepaid expenses | 169 | 87 |
| | 92,818 | 87,642 |
| **Investments in and advances to associated companies** | 2,987 | 2,504 |
| **Timber deposits and other investments** | 1,103 | 865 |
| **Property, plant and equipment (note 3)** | 60,864 | 57,169 |
| | $ 157,772 | 148,180 |

## LIABILITIES

| | (Thousands) 1975 | 1974 |
|---|---|---|
| **Current liabilities** | | |
| Accounts payable and accrued liabilities | $ 19,080 | 24,603 |
| Logging taxes payable (note 4) | 1,572 | 4,271 |
| Current portion of long term debt | 6,593 | 6,155 |
| | 27,245 | 35,029 |
| **Long term debt** | | |
| First mortgage bonds (note 5) | 47,415 | 53,903 |
| Other | 423 | 388 |
| | 47,838 | 54,291 |

## SHAREHOLDERS' EQUITY

| | 1975 | 1974 |
|---|---|---|
| **Capital stock (note 7)** | 68,750 | 68,750 |
| **Retained earnings** | 13,939 | (9,890) |
| | 82,689 | 58,860 |
| | $ 157,772 | 148,180 |

Signed on behalf of the Board

R M Gross Director Donald N Watson Director

# Consolidated Statement of Changes in Financial Position

| | (Thousands) 1975 | 1974 |
|---|---|---|
| **Source of funds** | | |
| From operations | | |
| Earnings before extraordinary item | $ 15,286 | 28,991 |
| Charges to earnings not involving use of funds | | |
| Depreciation, amortization and depletion | 10,972 | 11,403 |
| Other | (26) | (323) |
| | 26,232 | 40,071 |
| Income tax reduction on application of prior years' losses | 12,200 | 21,875 |
| | 38,432 | 61,946 |
| Proceeds from sales of fixed assets | 352 | 130 |
| | 38,784 | 62,076 |
| **Application of funds** | | |
| Expenditures on fixed assets | 14,923 | 14,576 |
| Dividends | 3,657 | 609 |
| Reduction of long term debt | | |
| First mortgage bonds | 6,488 | 5,989 |
| Other | — | 1,169 |
| Advance to an associated company and other investments | 756 | 294 |
| | 25,824 | 22,637 |
| **Increase in working capital** | 12,960 | 39,439 |
| Working capital at beginning of year | 52,613 | 13,174 |
| **Working capital at end of year** | $ 65,573 | 52,613 |

# Notes to the Consolidated Financial Statements

## 1. Summary of significant accounting policies

(a) Consolidation

The consolidated financial statements include the accounts of the company and its subsidiaries, all of which are wholly-owned.

(b) Translation of foreign currencies

Current assets and current liabilities in foreign currencies are translated into Canadian dollars at exchange rates prevailing at the end of each year. Long term debt has been translated into Canadian dollars at the rate of exchange prevailing at the reorganization date of June 29, 1973 (note 10). Revenues and expenses of foreign subsidiaries are translated at average exchange rates for each year.

(c) Short term investments

These investments are shown at cost, which approximates market value.

(d) Investments in associated companies

The investments in Haseldonckx, S. A. (50% owned), including its subsidiary, Les Papeteries de Gastuche, S. A., and Babine Forest Products Limited (24% owned) are accounted for on the equity method.

(e) Inventories

Logs, pulp chips, other raw materials and supplies are valued at the lower of average cost and replacement cost. Finished products (pulp and lumber) are valued at the lower of average cost and net realizable value.

(f) Property, plant and equipment

These assets are stated at cost. When facilities, except logging equipment, are disposed of in the normal course of business, the cost is removed from the asset accounts and charged to the accumulated depreciation account and proceeds are credited to the accumulated depreciation account. On the disposition of logging equipment, the cost and related depreciation are removed from the accounts and any gain or loss is reflected in earnings.

(g) Depreciation, amortization and depletion

Depreciation, other than for the sulphite mill, amortization and depletion are computed on original cost as follows:

| Asset | Depreciation, amortization and Depletion |
|---|---|
| Pulp mills | 4% composite rate on a straight-line method |
| Sawmills | 4% to 6% composite rate on a straight-line method |
| Logging equipment | 10% to 20% diminishing balance method |
| Timber cutting rights, roads and related facilities | production derived as a proportion of estimated total production available from such assets |

The sulphite mill was written off in 1971 by increasing accumulated depreciation by $31,312,000. Capital expenditures on the sulphite mill incurred since 1971 have been expensed as depreciation in the year incurred. Expenditures for 1975 amounted to $178,000 (1974 $207,000).

## 2. Inventories

| | (Thousands) 1975 | 1974 |
|---|---|---|
| Logs, pulp chips and other raw materials | $34,214 | 30,004 |
| Pulp and lumber | 15,927 | 12,109 |
| Supplies | 6,435 | 5,088 |
| | $56,576 | 47,201 |

## 3. Property, plant and equipment

| | (Thousands) 1975 | 1974 |
|---|---|---|
| Pulp mills | $199,449 | 195,780 |
| Sawmills | 20,931 | 19,940 |
| Timber cutting rights, roads and related facilities | 36,545 | 30,637 |
| Other equipment and facilities | 19,034 | 16,208 |
| Land | 951 | 994 |
| | 276,910 | 263,559 |
| Less: Accumulated depreciation, amortization and depletion | 216,046 | 206,390 |
| | $60,864 | 57,169 |

As a result of the reorganization on June 29, 1973 (note 10), property, plant and equipment was written down by $75,485,000, of which $9,964,000 was applied against the net book value of specific assets and $65,521,000 was added to accumulated depreciation, amortization and depletion.

## 4. Income taxes

In certain years before 1975, the company incurred cash losses and recorded in its accounts depreciation, including extraordinary write-downs of fixed assets, in excess of the amounts which it claimed for income tax purposes. The resulting potential tax benefits were not recognized in the accounts of those years because of the uncertainty of their ultimate realization. In 1975 a benefit of $12,200,000 has been realized because the company will claim for tax purposes sufficient of such prior years' losses and depreciation charges to eliminate liability for all income taxes other than logging taxes for the year.

The income tax value of the depreciable assets of the company at December 31, 1975 exceeds the value recorded in the accounts by approximately $39,000,000 which represents potential future tax benefits of approximately $18,000,000. Such benefits will be recorded in future years to the extent that the excess value may be applied against future years' taxable earnings. The maximum extent that the excess value may be applied in a particular year depends upon the maximum rate of depreciation allowed for income tax purposes and other factors.

## 5. Long term debt

First mortgage bonds, payable in U.S. dollars, excluding the portion payable within one year and included in current liabilities are:

| | (Thousands) 1975 | 1974 |
|---|---|---|
| 6-1/8% First Mortgage and Collateral Trust Bonds, due January 2, 1981 with annual sinking fund instalments. *(1975 U.S. $20,000,000; 1974 U.S. $24,000,000)* | $19,964 | 23,957 |
| 5-3/8% First Mortgage and Collateral Trust Bonds, due July 1, 1985 with annual sinking fund instalments. *(1975 U.S. $27,500,000; 1974 U.S. $30,000,000)* | 27,451 | 29,946 |
| | $47,415 | 53,903 |

The Province of British Columbia has unconditionally guaranteed payment of the principal and interest on the bonds.

Principal payments required on long term debt through 1980 amount to $6,593,000 per annum.

## 6. Pensions

Pension costs in respect of both current and prior years' service benefits, for the several pension plans in which the company is participating, are fully funded as at December 31, 1975.

## 7. Capital stock

| | (Thousands) 1975 | 1974 |
|---|---|---|
| Non-Voting Shares without par value. Authorized 60,000 shares; issued 39,750 shares | $39,750 | 39,750 |
| Common Shares without par value. Authorized 24,318,119 shares; issued 12,151,453 shares | 29,000 | 29,000 |
| | $68,750 | 68,750 |

Other than with respect to voting, the Common Shares and Non-Voting Shares are equal and carry the same rights including the right to payment of dividends and distributions of the same amount per share.

Under a stock option plan adopted November 30, 1973, 100,000 Common Shares are reserved for issue to key employees, the purchase price per share being the market value at the date of the grant of options under the plan. The options expire ten years from the date of grant, or upon termination of employment of the optionee, whichever is earlier, and are exercisable after one year to the extent of 20% a year on a cumulative basis. Information with respect to options under the plan is as follows:

| | Number of shares | Option price per share |
|---|---|---|
| Options outstanding at December 31, 1974, granted in 1974 | 93,200 | $4.325-6.375 |
| Options granted in 1975 | 1,400 | 4.925 |
| Options cancelled in 1975 | 4,000 | 6.375 |
| Options outstanding at December 31, 1975 | 90,600 | 4.325-6.375 |

## 8. Commitments and contingent liabilities

A modification of the Prince Rupert sulphite mill to the bleached kraft process has been approved

by the Board of Directors, subject to further approval of certain engineering, pollution and financial matters. The estimated cost of the project in 1975 dollars is $85,000,000, of which $19,000,000 is budgeted for expenditure in 1976.

Annual rental obligations under long term leases amount to approximately $850,000 in 1976, $710,000 in 1977, $725,000 in 1978, $530,000 in 1979 and $525,000 in 1980.

The company is obligated to provide long term financing to Babine Forest Products Limited up to a maximum of $2,000,000 for the construction and operation of a sawmill in the northern interior of British Columbia. Funds provided by the company to December 31, 1975 total $960,000. The mill is now constructed and operating and no further long term financing by the company is anticipated.

### 9. Remuneration of directors and officers

The aggregate direct remuneration paid or payable to directors and senior officers amounted to $751,000 in 1975.

### 10. Reorganization

Pursuant to an agreement dated April 2, 1973, certain assets and liabilities of Columbia Cellulose Company, Limited were combined on June 29, 1973 with those of the company. Columbia Cellulose Company, Limited then ceased to be a shareholder of the company. In addition, the company was required under the agreement to write down its fixed assets and changes were made to its capital structure.

### 11. Anti-inflation program

The company is subject to restraint of profit margins, prices, dividends and compensation under the terms of the Anti-Inflation Act and Regulations which became effective October 14, 1975. This legislation does not have a significant effect on the results of the company's operations for 1975 or its financial position as at December 31, 1975.

### 12. Subsidiary companies

Calum Lumber Limited
Canadian Cellulose International, S. A.
Celgar Properties Limited
Celtran Equipment Limited
Colcel Properties Limited
High Arrow, S.A.
Nass, S.A.
Pohle Lumber Co. Ltd.
Twinriver Timber Limited

## Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Canadian Cellulose Company, Limited and its subsidiaries as at December 31, 1975 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the company as at December 31, 1975 and the results of its operations and the changes in its financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Coopers & Lybrand

*Chartered Accountants*

Vancouver, B.C.
February 6, 1976

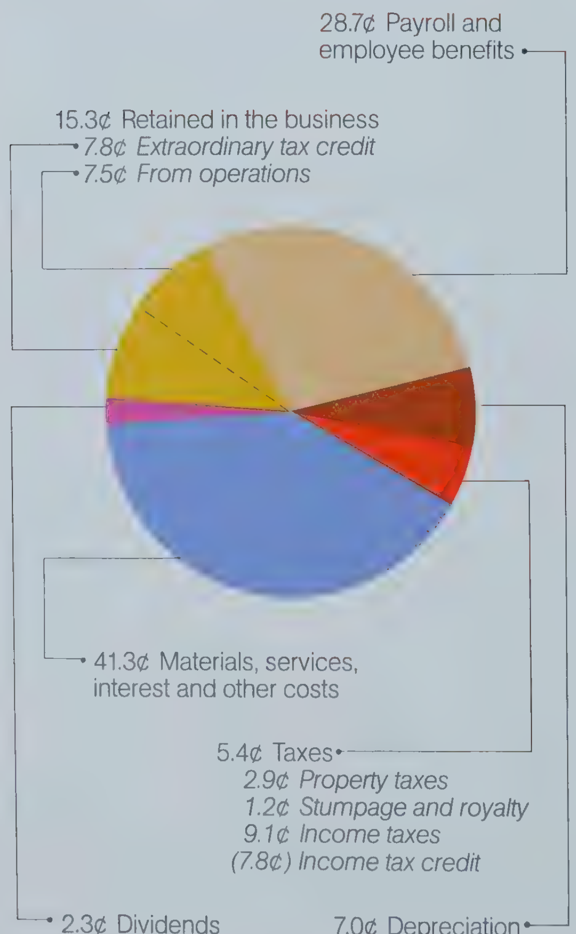
# Ten Year Review

| | 1975 |
|---|---|
| **Earnings (millions)** | |
| Net sales | $156.0 |
| Earnings (loss) before undernoted items | 29.5 |
| Provision for income taxes | 14.2 |
| Earnings after taxes | 15.3 |
| Minority interest | — |
| Earnings (loss) before extraordinary items | 15.3 |
| Extraordinary items | 12.2 |
| Net earnings (loss) | $ 27.5 |
| **Per share** | |
| Earnings before extraordinary item | $ 1.25 |
| Net earnings | 2.25 |
| Cash flow from operations before extraordinary item | 2.15 |
| Cash flow from operations | 3.15 |
| Dividends | .30 |
| **Financial position (millions)** | |
| Working capital | $ 65.6 |
| Fixed assets | 276.9 |
| Accumulated depreciation, amortization & depletion | (216.0) |
| Other assets | 4.0 |
| | 130.5 |
| Long term debt | 47.7 |
| Deferred income taxes | .1 |
| Minority interest | — |
| Shareholders' equity | 82.7 |
| | $130.5 |
| **Changes in financial position (millions)** | |
| Sources: Cash flow from operations | $ 38.4 |
| Other, including long term financing | .4 |
| | 38.8 |
| Applications: Fixed assets | 14.9 |
| Dividends | 3.7 |
| Long term debt | 6.5 |
| Other | .7 |
| | 25.8 |
| Increase (decrease) in working capital | $ 13.0 |
| **Production and other statistics** | |
| Kraft pulp (thousands of short tons) | 297 |
| Sulphite pulp (thousands of short tons) | 87 |
| Lumber (millions of board feet) | 167 |
| Logs (thousands of cunits) | 850 |
| Employees at year end | 2,939 |

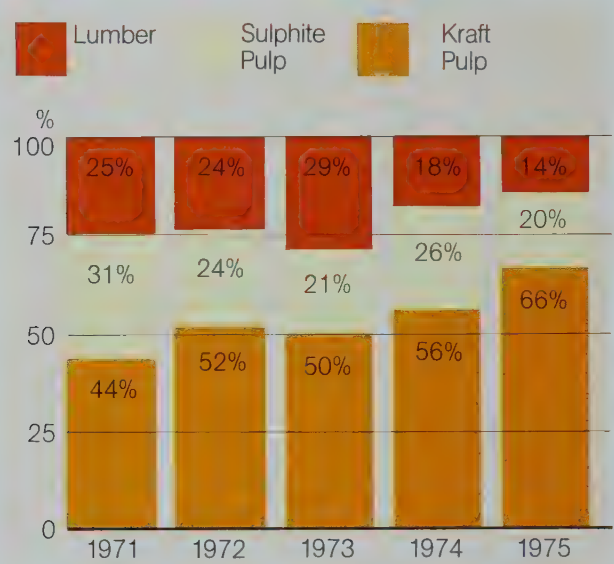
| | 1974 | 1973 | 1972 | 1971 | 1970 | 1969 | 1968 | 1967 | 1966 |
|---|---|---|---|---|---|---|---|---|---|
| | 191.5 | 133.8 | 118.8 | 83.5 | 83.5 | 103.3 | 88.2 | 67.5 | 64.4 |
| | 54.6 | 13.3 | (7.9) | (19.0) | (7.7) | 1.4 | (9.8) | (16.6) | (.6) |
| | 25.6 | 6.2 | .1 | (2.5) | (3.8) | .8 | (.3) | (3.2) | 1.5 |
| | 29.0 | 7.1 | (8.0) | (16.5) | (3.9) | .6 | (9.5) | (13.4) | (2.1) |
| | — | — | — | (.5) | — | — | — | 2.6 | 1.4 |
| | 29.0 | 7.1 | (8.0) | (17.0) | (3.9) | .6 | (9.5) | (10.8) | (.7) |
| | 21.9 | 5.2 | — | (31.8) | — | .8 | — | — | — |
| | 50.9 | 12.3 | (8.0) | (48.8) | (3.9) | 1.4 | (9.5) | (10.8) | (.7) |
| | 2.38 | .58 | | | | | | | |
| | 4.17 | 1.01 | | | | | | | |
| | 3.29 | 1.54 | | | | | | | |
| | 5.08 | 1.97 | | | | | | | |
| | .05 | — | | | | | | | |
| | 52.6 | 13.2 | (32.6) | 19.5 | 12.0 | 20.6 | 24.4 | 29.5 | 20.5 |
| | 263.6 | 252.3 | 253.1 | 245.9 | 241.8 | 237.2 | 227.4 | 225.4 | 220.6 |
| | (206.4) | (198.1) | (125.3) | (116.9) | (81.7) | (75.6) | (67.4) | (57.6) | (52.4) |
| | 3.4 | 2.6 | 3.5 | 4.4 | 4.5 | 2.3 | 2.6 | 4.4 | 4.3 |
| | 113.2 | 70.0 | 98.7 | 152.9 | 176.6 | 184.5 | 187.0 | 201.7 | 193.0 |
| | 54.2 | 60.5 | 71.2 | 117.4 | 103.6 | 102.8 | 105.4 | 125.5 | 114.3 |
| | .1 | .9 | — | — | 2.7 | 6.5 | 6.4 | 6.6 | 9.8 |
| | — | — | 29.9 | 29.9 | 15.5 | 15.5 | 15.5 | 15.0 | 2.6 |
| | 58.9 | 8.6 | (2.4) | 5.6 | 54.8 | 59.7 | 59.7 | 54.6 | 66.3 |
| | 113.2 | 70.0 | 98.7 | 152.9 | 176.6 | 184.5 | 187.0 | 201.7 | 193.0 |
| | 61.9 | 24.0 | 2.8 | (8.0) | 3.0 | 11.9 | 1.9 | (6.8) | 6.2 |
| | .1 | 42.3 | 1.6 | 35.3 | 13.1 | 2.7 | 17.4 | 32.7 | 40.5 |
| | 62.0 | 66.3 | 4.4 | 27.3 | 16.1 | 14.6 | 19.3 | 25.9 | 46.7 |
| | 14.6 | 9.5 | 10.2 | 12.1 | 11.2 | 12.7 | 4.0 | 11.1 | 51.9 |
| | .6 | — | — | .5 | 1.0 | 1.5 | .5 | 1.0 | 1.0 |
| | 7.1 | 7.3 | 46.2 | 7.2 | 9.9 | 4.2 | 4.3 | 4.8 | 4.1 |
| | .3 | 3.7 | .1 | — | 2.6 | — | 15.6 | — | 3.4 |
| | 22.6 | 20.5 | 56.5 | 19.8 | 24.7 | 18.4 | 24.4 | 16.9 | 60.4 |
| | 39.4 | 45.8 | (52.1) | 7.5 | (8.6) | (3.8) | (5.1) | 9.0 | (13.7) |
| | 409 | 378 | 421 | 392 | 338 | 408 | 384 | 270 | 187 |
| | 156 | 140 | 154 | 143 | 130 | 168 | 174 | 158 | 155 |
| | 243 | 254 | 249 | 232 | 150 | 133 | 127 | 86 | 118 |
| | 1,297 | 1,451 | 1,095 | 1,165 | 1,001 | 1,368 | 1,214 | 1,087 | 848 |
| | 3,197 | 3,022 | 2,951 | 2,748 | 2,649 | 2,738 | 2,840 | 2,913 | 2,963 |

**Note:** *Comparative data for 1972 and prior is that of Columbia Cellulose Company, Limited and subsidiaries. Per share information is not shown prior to 1973 since the reorganization at June 29, 1973 renders this comparision with Columbia Cellulose inappropriate.*

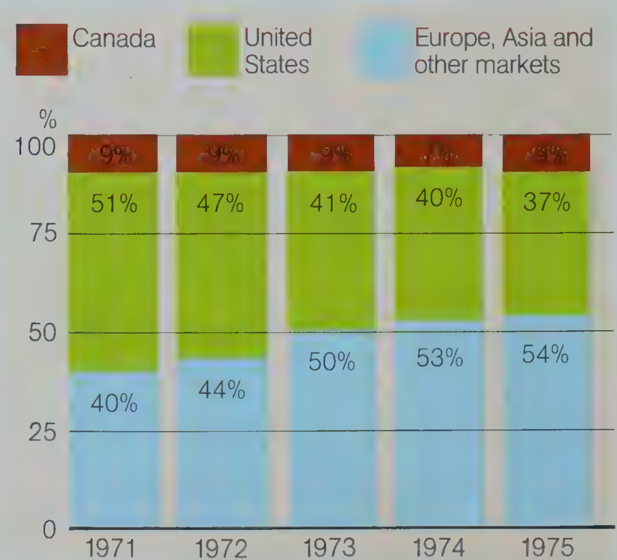
## Disposition of 1975 sales dollar




## Sales revenues by major product

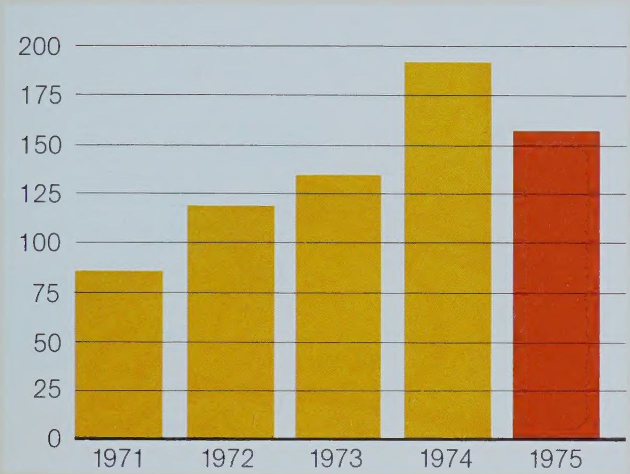



## Pulp sales revenues by market area

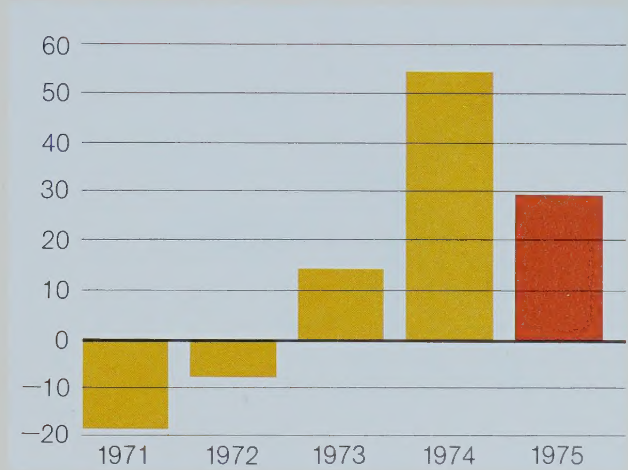


# Five Years at a Glance (millions of dollars)

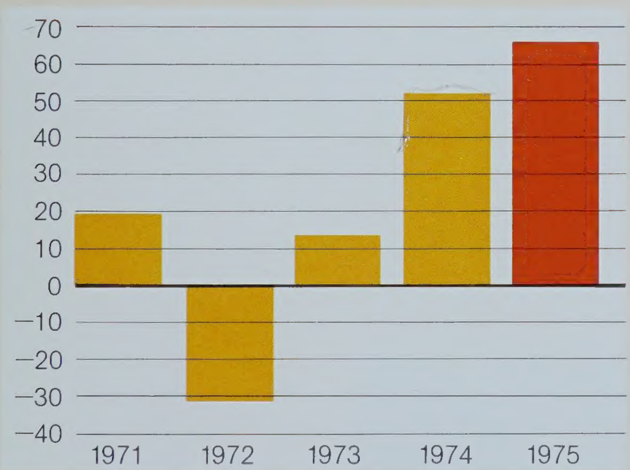
## Net sales



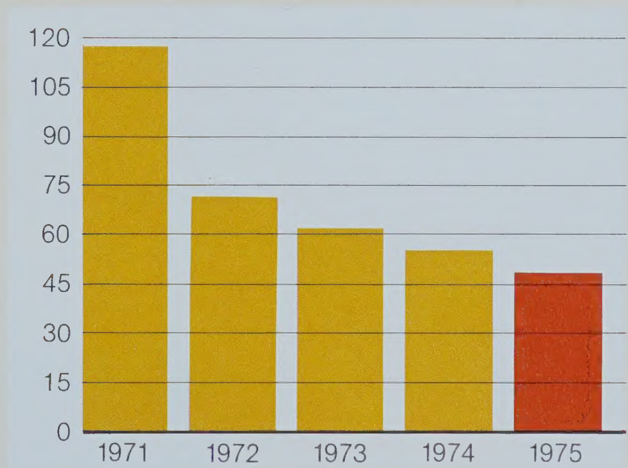

## Earnings before taxes and extraordinary items



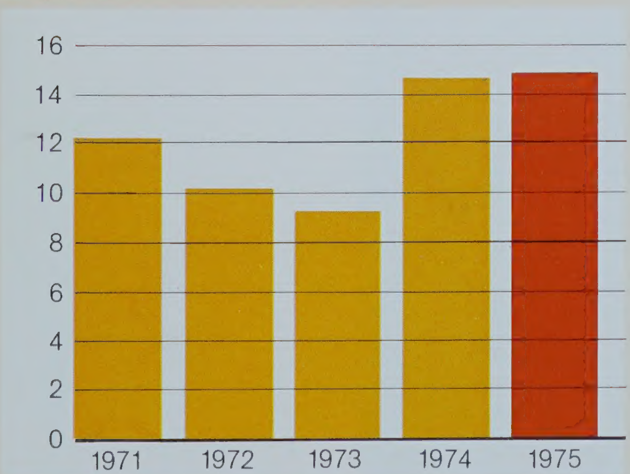

## Working capital at year end



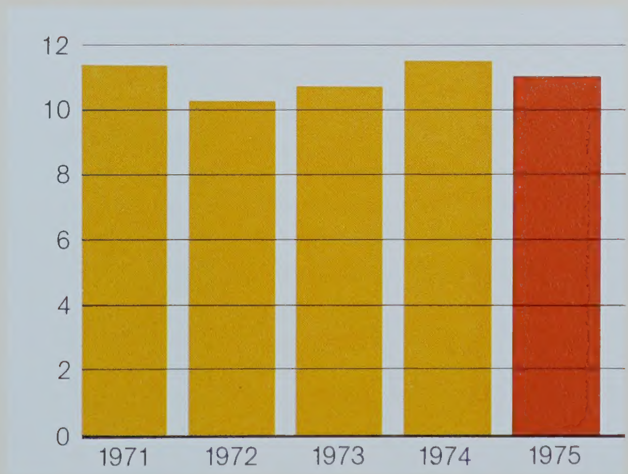

## Long term debt at year end




## Expenditures on fixed assets




## Depreciation expense

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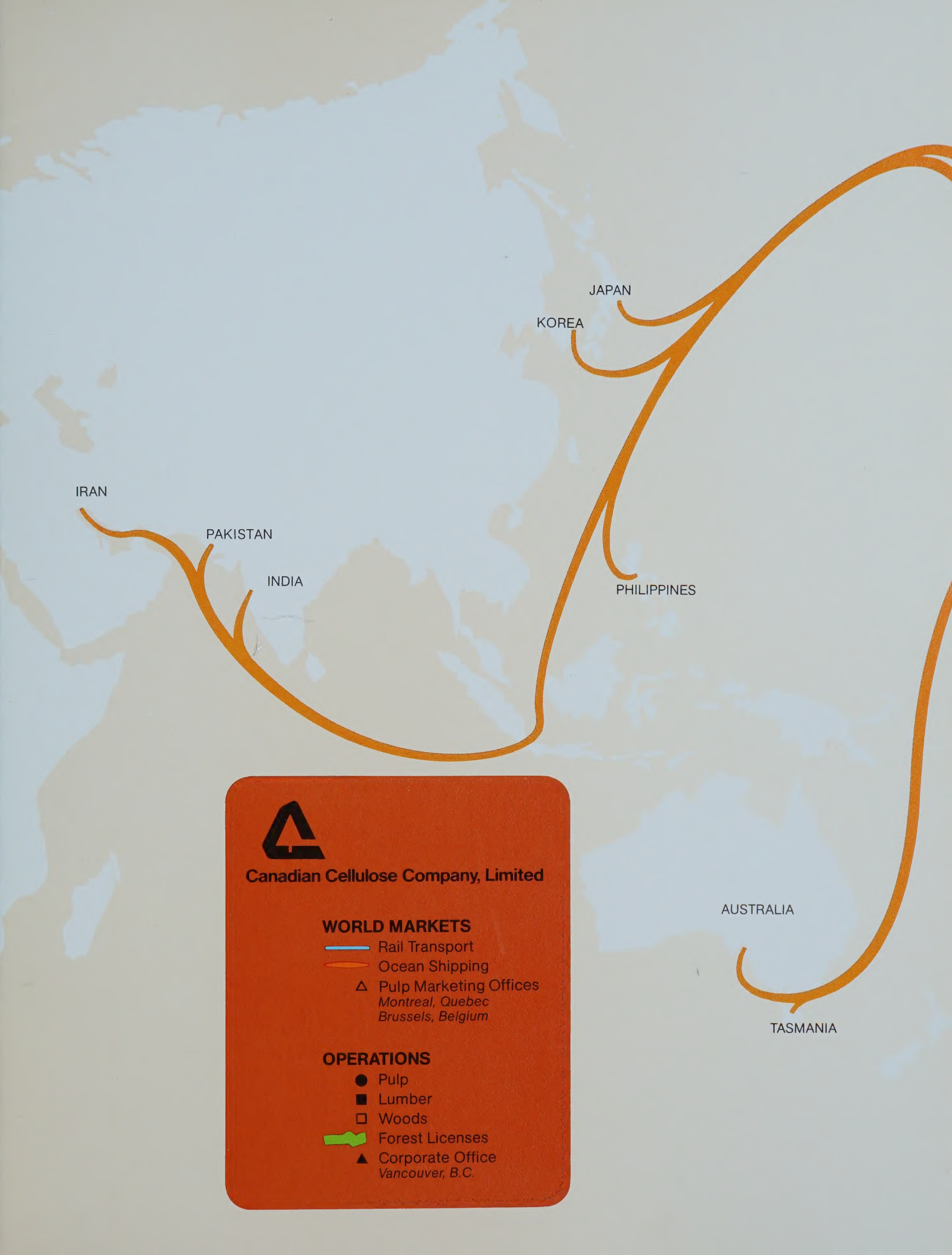
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LITHO'D IN CANADA